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C O N F I D E N T I A L SECTION 01 OF 03 HONG KONG 000164

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SUBJECT: MACAU CASINO BOOM SQUELCHED BY ECONOMIC DOWNTURN

REF: A. 08 HONG KONG 1962

[B.](#) HONG KONG 92

Classified By: Consul General Joe Donovan for reasons 1.4 (b) and (d)

11. (C) Summary: U.S. casino industry executives in Macau say the slowing PRC and Hong Kong economies - and related credit crunch - are reducing their revenues even more than PRC visa restrictions imposed in September 2008. The foreign visitor growth rate declined significantly in recent months, and annual aggregate casino revenues and visitors may decline in 2009 for the first time since Macau's gaming boom began in 2003. Major hotel/casino construction projects have been delayed, thousands of workers have been let go and casino operators have reduced working hours and wages for thousands of other employees. Our interlocutors in Macau expect no material loosening of PRC visa restrictions prior to the Legislative Council and Chief Executive elections scheduled later this year. The Government of Macau (GOM) has increasingly used its immigration controls to force the replacement of foreign workers with local residents, especially in higher paying jobs. GOM officials look forward to construction activity on several strategic infrastructure projects that may help diversify Macau's casino-dominated economy. End summary.

12. (C) Comment: The gaming revenue slowdown affecting Macau's casino operators and government will likely persist into the latter half of 2009, based on market economists' estimates for the economic slowdown in the PRC. Economic weakness in the PRC and Hong Kong, the PRC's restrictive visa policy for Mainlanders entering Macau, and the addition of new hotel rooms and gaming space in 2009 are expected to reduce year-over-year profits at hotel/casino properties. Cuts in employment and wages will fall predominantly on Macau's foreign workers, given the GOM's strict pro-Macanese visa policies. While casino operators strongly complain to us in private about GOM "meddling" in staffing decisions, the casinos are regulated entities holding a quasi-monopoly market position; they have no choice but to fully - and quietly - comply with the government's new policies.

Economic Downturn Eclipses Harm from Visa Restrictions

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13. (C) Senior casino executives at the three U.S. firms operating in Macau (i.e. Las Vegas Sands, Wynn and MGM) told Econoff on January 16 that the economic slowdown in the PRC and Hong Kong impacts their profitability even more than the recent tightening of visa restrictions imposed by the PRC on Mainland visitors traveling to Macau (ref A). They said the downturn has shifted the mix of Macau visitors toward a less affluent clientele that spends less, gambles less and stays for shorter periods. Echoing the comments of his competitors, an MGM executive said, "We're getting fewer 'significant' players, and the ones we get are wagering less." In addition, both the junket operators and their

high-roller customers that dominate the Macau gaming market have been negatively affected by significantly reduced access to credit, related to the global economic downturn.

¶4. (U) The number of foreign visitors to Macau (septel) increased 17 percent in 2008 to over 30 million, with the growth rate declining sharply in the last quarter. Macau's foreign visitors in 2008 exceeded Hong Kong's total for the first time. Mainland Chinese visitors accounted for 58 percent of Macau's foreign visitors, with Hong Kong and Taiwan visitors accounting for 28 percent and 5 percent, respectively (based on preliminary government statistics). No other country or territory accounted for more than 1.5 percent of foreign visitors to Macau in 2008. In February 2009, the GOM will begin carving out foreign migrant workers from its foreign visitor calculations, in order to distinguish between foreign tourists and work-related arrivals.

¶5. (U) While the number of foreign visitors to Macau increased in 2008, the growth rate slowed sharply in recent months. While the total grew by almost 20 percent year-over-year from January - July 2008, foreign visitor arrivals increased only 8.5 percent in August. By December 2008, in the wake of PRC visa restrictions, the global economic downturn and the related reduction in credit availability, visitor arrivals and gaming revenues had likely declined year-over-year (GOM statistics are not yet available for December). Morgan Stanley's gaming analyst estimated in January 2009 that Macau's gaming revenues will decline by 10 percent in 2009; none of our interlocutors disputed that possibility.

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#### The Uncompleted "Eyesores" Across from Venetian

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¶6. (C) U.S. casino executives from Wynn and MGM were pleased that Las Vegas Sands (LVS) recently ceased construction activity on two large land parcels adjacent to The Venetian, LVS' flagship hotel/casino property in Macau. LVS was forced to suspend further construction on its nearly completed buildings in November 2008, as external funding sources dried up in the wake of the worldwide financial crisis. The Wynn executive said, "We'll have an eyesore over there for a year, but at least we won't have those thousands of rooms streaming into the market during this downturn."

¶7. (SBU) With the LVS properties on hold, only one large hotel/casino is expected to open in Macau during 2009 - Melco Crown's 1,400 room City of Dreams located across the street from The Venetian. Maria Helena de Senna Fernandes, Deputy Director of the Macau Tourist Office, told us on January 16 that 2,600 other rooms (in addition to City of Dreams) will be completed during 2010, including Wynn's new 400-room Encore property currently under construction next to its existing facility. The 4,000 additional rooms will boost Macau's hotel room total to over 22,000, with over 80 percent rated as four or five stars by the Macau Government Tourist Office.

#### From Labor Boom to Large-Scale Layoffs

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¶8. (U) During the five years ended September 30, 2008, as the casino boom unfolded, Macau's total labor force increased 54 percent to 337,400. Almost 31 percent (104,300) of those workers were foreigners, including 58,500 from the PRC, 16,500 from Hong Kong, and just over 16,000 from the Philippines. Most foreigners employed in Macau work in construction, food service, or as support staff in hotels and casinos, while other large employment categories include cleaners, security guards and retail.

¶9. (U) Beginning in October 2008, the local economic

downturn exacerbated the effects of tighter visa restrictions imposed by the PRC on mainland Chinese visitors. In response, casinos cut wages, reduced staff working hours, and shed both domestic and foreign employees. The number of foreign workers in Macau declined by eight percent in the two months ended November 30, 2008. Most layoffs were in the construction sector, with the largest hit stemming from LVS' decision to cease construction its two large hotel projects next to The Venetian.

**¶10. (U)** In early January 2009, LVS also terminated 500 foreign casino staff (two percent of its total workforce) and eliminated four working days per month for 6,800 of its gaming employees. Other large employers such as Melco Crown and Galaxy Entertainment adopted similar cost saving measures, while Wynn and SJM Holdings (Stanley Ho's company) have thus far announced no layoffs or pay cuts. Wynn and SJM told us privately they have significant numbers of excess workers, but they will refrain from personnel cuts as long as possible. While MGM has announced no layoffs, a senior MGM executive in Macau told us staffing will be reduced through attrition "for the time being."

Macau Government Moves to Protect Locals' Jobs

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**¶11. (U)** The GOM acted quickly to protect the jobs of its citizens by refusing visa applications from foreign workers (especially those expected to earn over USD 1,500 per month) and shortening visa extensions for foreign workers already in Macau. In early December 2008, Financial Secretary Francis Tam stated that his government would use the GOM's visa powers to force the departure of 991 foreign low-to-middle level casino managers; the casinos would presumably need to replace those employees with Macau residents. He said the overall goal was to reduce the number of foreign casino workers in Macau by 36 percent (or 1,238 people) during 2009, with locals expected to assume those positions. As of January 1, the Macau government stopped accepting and renewing work permit applications for foreign workers up to the pit supervisor level. (Note: The GOM mandates that all 20,000 plus casino dealers be Macau residents. They earn an average of USD 1,700 (MOP 13,226) per month. This exceeds Macau's median wage by 65 percent. Card dealers earn more than new college graduates in nearly every profession. End note.)

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**¶12. (C)** A senior MGM executive told Econoff, "This is an election year in Macau, so the government's efforts to protect local jobs are understandable - and intense." He noted that several of the company's foreign visa applicants were recently denied visas by the GOM, while some foreign employees received visa renewals that expire in only six months. He said GOM officials told him the government "wants all gaming employees earning (USD 1,875 - USD 4,375) per month to be Macau citizens." The MGM executive complained that the GOM restrictions make it difficult to fill some positions with qualified personnel. He said, "There's a big difference between political expediency and business sustainability. Too much government engineering of casino staffs will hurt our performance."

Cooperation on Infrastructure Projects to Fuel Growth

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**¶13. (C)** Fernandes said her office recently established a working group with Guangdong officials to lay the groundwork for the "strategic development" of Hengqin Island, located across a narrow river from Macau in the Zhuhai District of Guangdong. Joint planning efforts will accelerate following the January 9-10 visit to Macau by PRC Vice President Xi Jingping (ref B). Xi reiterated Beijing's recent decision to provide USD 732 million (RMB 5 billion) toward construction of what will become the world's longest bridge linking Hong

Kong, Zhuhai and Macau. The HKG, GOM and private sector financing are expected to provide an additional USD 5.1 billion (RMB 35 billion) for the project. Construction is scheduled to begin by the end of 2009, with the bridge completed in 2016. The long-discussed bridge is a key element of PRC plans to more closely integrate the economies of the Pearl River Delta region, while facilitating Zhuhai's development and assisting the diversification of Macau's economy. Fernandes said Macau will soon initiate the bidding process for construction of its new light rail system (designed to facilitate rapid transit of passengers between Macau's recently developed Cotai Strip and the city of Macau) by 2013. She said the light rail system will "undoubtedly be linked physically to the terminus of the new bridge."

DONOVAN